

Minutes

November 4, 2003

Seattle City Employees' Retirement System Regular Board Meeting

Tuesday, November 4, 2003 - 8:30 a.m.
Metropolitan Credit Union Bldg – 3rd Floor,
Credit Union Conference Room

Present: Jan Drago, Dwight Dively, Norma McKinney, Lou Walter, Mary Norris, Paul Berry and Frank Mathews.

Absent: none.

Also Present: Ken Hunich – ARSCE, Walt North – ARSCE, Wayne Bishop – RCLEA, Bill Farrell - ARSCE, Eddie Haw - ARSCE, Jesse Tapp – ARSCE, John Love – ARSCE/Transit, John Curtin – ARSCE/SPU, Maureen Madion – City Attorney's Office, William Forna – Mellon, Gwen Jensen, Laurie Kirby, Mel Robertson and Norm Ruggles.

Public Comment: No public comment.

Minutes:

Upon motion by Dwight Dively, seconded by Paul Berry, the Retirement Board approved the minutes from the October 2, 2003 Retirement Board meeting.

Ratification of Retired Payroll, Office Payroll, other Billings and Withdrawals:

Information: The following items represent normal expenses and nothing extraordinary.

Service	\$5,136,566.67
Disability	\$53,878.80
Beneficiary	\$630,295.91

Pension Payroll – October 2003	\$5,820,741.38
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Office Payroll - pay period ending September 23, 2003	\$25,663.42
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Office Payroll - pay period ending October 7, 2003	\$25,835.36
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Vouchers Processed - from September 25, 2003 through October 23, 2003	\$ 254,011.36
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* \$ 212,339.53 Expert and Consultant Services

Immediate Withdrawal of Contributions

<u>Member</u>	<u>Department</u>	<u>Position</u>
Bruns, Mary E	LAW	Admin Assistant
Gistarb, Mary L	Fire	EEO
Harris, Bruce	ESD	Janitor
Hosieni, Sherri	LAW	Admin Spec II
Howard, Nicole S	Parks	Rec Leader
King, Kourtne M	Muni Court	Admin Spec II
Langford, Luke Henry	TES	Solid Waste Field Rep
McDonald, William R	DCLU	Permit Specialist
Paige III, Jeff D	Light	Lineworker
Phillips, Kirk Robert	TES	Security / Manager
Smith, James G	SEATRAN	Traffic Marking Lead
Soliz, Ramon Carolos	Library	Library Tech
Spencer-Watkins, Gavin	Seattle Center	Laborer
Surall, Karen A	Water	Messenger

Upon motion by Dwight Dively, seconded by Lou Walter, the Board ratified the Retired Payroll, Office Payroll, other Billings and Withdrawals.

Ratification of Service Retirements:

Information: The following list represents the retirements that have been processed since the last Retirement Board meeting.

<u>Member</u>	<u>Retired</u>	<u>Years</u>	<u>Days</u>	<u>Department</u>	<u>Position</u>	<u>Age</u>	<u>Option</u>
Candy, John A	10/4/2003	23	106	Parks	Senior Gardner	57	C15
Champlin, Norman H.	9/10/2003	5	259	DCLU	Sign Inspector	67	D
Gilbert, Stephen W.	10/2/2003	28	314	Library	Coord Library Assoc	52	S
Hammond, Geraldene	9/20/2003	20	7	SEATRAN	Engineering Aide	60	A
Korpela, Kathleen A.	9/19/2003	22	122	K.C. Health	Public Health Nurse	56	E
Picht, Kathleen A.	9/24/2003	31	142	Muni Court	Res & Eval Assistant	51	B
Rodill, Clare	10/2/2003	5	159	Library	Library Assoc I	64	C10
Savage, Charles	10/1/2003	10	300	SPU	Maintenance Laborer	56	19B
Williams, Rosa L.	9/17/2003	2	305	Dual/Polic	Crossing Guard	80	A
Decoster, Dorothy	9/10/2003	11	22	SPU	Planning & Devl Spec Sr	59	S,F
Mossison, Patricia	9/24/2003	14	277	Police	Admin Spec I	67	S

Norm said Paul had requested information about how many members were leaving the System versus how many were entering the System. Norm said 25 people left in October and 41 entered the System. During the last 6 months, there were 321 new members and 204 who left the System.

Upon motion by Dwight Dively, seconded by Jan Drago, the Retirement Board approved the service retirements listed above, pending final review.

Ratification of Investment Transactions and Statement of Securities and Cash:

Items in the Investment Summary for September 2003 were highlighted by Norm.

Upon motion by Frank Mathews, seconded by Mary Norris, the Retirement Board approved the Investment Summary report.

Investment Committee Report:

The quarterly meeting of the Investment Committee and Advisory Committee is scheduled for November 20, 2003 at noon in the Credit Union Conference Room.

Norm reported on the October 30, 2003 meeting of the Investment Committee. He updated the Board on his report from last month on investigations within the mutual fund industry. Some mutual fund trading practices have come under investigation by the Securities and Exchange Commission, the New York Attorney General's Office, and a Massachusetts regulatory body. The Retirement System does not invest in mutual funds. We do use Putnam Investments as one of our international equity investment managers. They offer a myriad of products, including mutual funds, and are one of the firms under investigation. Putnam has recently received much negative publicity.

Paul Berry said he does not feel it is appropriate for the Retirement System to do business with a firm whose practices and ethics are in serious question, and particularly in the current situation which has revealed that Putnam's management became aware of the trading practices in 2000 but failed to correct them. Other Board members voiced similar concerns. Mel pointed out that Putnam's investment performance for us has been

relatively weak and that our recent asset allocation calls for a reduction in international equities. The Board discussed all of these factors and expressed their dissatisfaction with Putnam.

Upon motion by Paul Berry, seconded by Dwight Dively, the Retirement Board voted to terminate the investment relationship with Putnam immediately.

Norm reported that the Investment Committee interviewed two hedge fund-of-funds managers. Currently, the Retirement System uses Quellos located in Seattle. The Investment Committee feels some of the funds invested with Quellos should be spread among additional hedge fund-of-fund managers. The Committee interviewed two others. One is Tremont Capital Management based in Rye, New York. They have had very good returns and low volatility as compared to other investments and managers. They made a very good presentation. They use a top down approach by looking at developments in the marketplace, the economy and the world, then they decide where the appropriate investments should be made. Quellos uses a bottom up approach based on extensive research on individual companies. Tremont uses about 20 funds in their fund of funds, whereas Quellos uses about 40. The Committee recommends Board approval to place \$20M with Tremont Capital Management.

The second hedge fund-of-fund manager that was interviewed was Coast Asset Management located in Santa Monica, California. They have had very solid returns and low volatility as well. Coast uses a combination of top-down and bottom-up. They have about 50 funds in their hedge fund-of-funds. The Committee recommends Board approval of a \$10M investment in Coast Asset Management.

Upon motion by Frank Mathews, seconded by Paul Berry, the Retirement Board approved the Investment Committee's recommendation to hire Tremont Capital Management for \$20M and Coast Asset Management for \$10M.

Executive Director Report:

Norm reminded the Board that Quellos would be making a presentation after the meeting.

Norm reported that the Retiree Medical Open Enrollment mailing would be sent at the end of the week. There will be two separate meetings to explain the options to the retirees.

Norm handed out a "prototype" of the Annual Report. The content was correct but the format will be improved. The final Annual Report should be finished next week.

The State Auditor performed an audit for year 2002 on not only the City Retirement System but also the Seattle Fire Pension and Police Pension. It was found that overpayments were made to deceased people in the amount of \$302,883. Of that combined amount, the Retirement System had an overpayment total of \$19,714 that was paid to three people. Mel has reviewed our procedures, tightened our controls and is using more frequently an outside service to help avoid these situations. Mel went over the processes and how they are being enhanced. Board members commented that the procedures seem thorough.

Old Business:

(1) Status of Benefit Enhancements

The Board was informed that the estimated current funding level of the Retirement Fund is: 81.92% as of September 30, 2003.

(2) Actuarial Experience Study

Flick Fornia, our actuary from Mellon (formerly Buck Consultants), gave a report on two items: the Actuarial Experience Study and the cost impact on the Retirement System of the 2002 Employee Separation Incentive Program.

Experience Study: Flick discussed the findings of the study and went over the options for possible changes to the actuarial assumptions. The Board asked questions and discussed the details of the various options.

Upon motion by Dwight Dively, seconded by Lou Walter, the Board approved actuarial assumption changes to reduce inflation from 4% to 3.5%, reduce real salary growth by 0.5%, reduce investment return from 8% to 7.75%, and minor adjustments recommended by the actuary.

2002 Employee Separation Incentive Program: Flick discussed the Program costs resulting from the purchase of service credit and from early separation from employment. He estimates that the Program cost the Retirement System about \$4.25M, or about \$21,000 per participant.

New Business:

- (1)** Draft Legislation. Norm introduced Maureen Madion from the Law Department and explained that she had worked on legislation to update and organize certain Code provisions. Maureen explained that the legislation is merely housekeeping in nature and is not substantive. She summarized the details of the two ordinances. One will help clean up some provisions regarding the buybacks. The other will help clean up some provisions on death benefits and distribution.

Upon motion by Frank Mathews, seconded by Mary Norris, the Board approved the legislation to bring current and organize Code provisions regarding the buybacks and the death benefits.

- (2)** Paul commented on a request that he had made to have additional information on the cash flow of the System. Mel responded that he had a report for Paul and passed it along to him.
- (3)** Jan announced that the December Board Meeting will be her last because she'll no longer be Chair of the City Council Finance and Budget Committee.

Adjournment

Upon motion by Frank Mathews, seconded by Paul Berry, the Retirement Board voted to adjourn the meeting. The meeting adjourned at 10:28 am.

Norma McKinney, Secretary